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ABSTRACT

The New Jersey Public School Education Act of 1975 attempted to correct inequities in the collection and distribution of school tax revenues throughout the state. This study examined distribution of New Jersey state aid in 1977 and evaluated the effects of the act. Results indicate that 68 percent of the additional state aid generated by the act went to districts of moderate wealth, and the basic distribution pattern of aid remained unchanged. Also, the new state aid was used to provide property tax relief to poorer districts. In sum, the broad outcome of the new law has been almost negligible. District wealth is still the major factor in determining the level of educational expenditures in New Jersey. A number of questions concerning the impact of the act require further study. (Author/JM)

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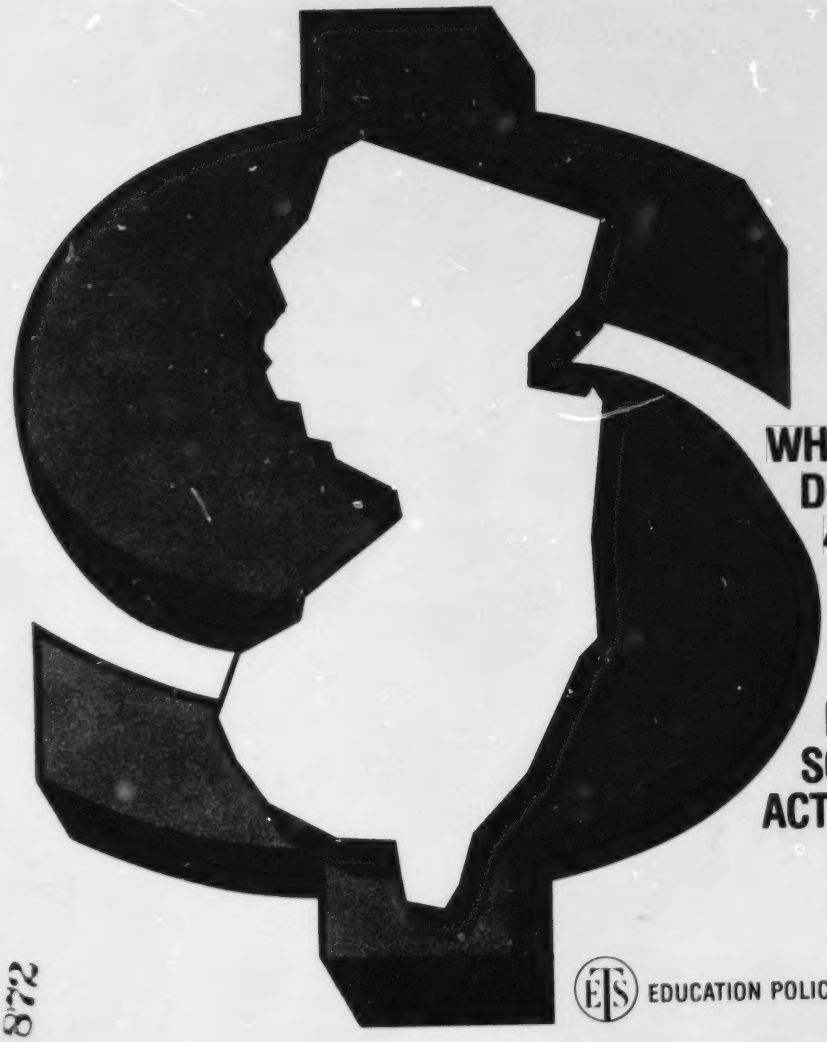

WHERE DID THE 400 MILLION DOLLARS GO?

THE IMPACT OF THE NEW JERSEY PUBLIC SCHOOL EDUCATION ACT OF 1975

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THE IMPACT OF THE NEW JERSEY PUBLIC SCHOOL EDUCATION ACT OF 1975

by

Margaret E. Goertz

Education Policy Research Institute
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Princeton, New Jersey

March 1978

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PREFACE

"Where Did the 400 Million Dollars Go?" is the first policy report in a series published by the Education Policy Research Institute of Educational Testing Service which looks at selected issues in New Jersey school finance.

The preparation of this report involved a number of individuals both inside and outside the Education Policy Research Institute. Melinda Boroson and Jay Moskowitz of EPRI assisted in the design and execution of the research. Peter Jargowsky, Jon Narducci and Lucy Swallick of ETS compiled an extensive data base and generated the miles of computer printout which underlie this analysis. Herb Starkey, Bob Russell and other personnel in the Division of Finance and Administration of the New Jersey State Department of Education opened their files to us and answered endless data questions. Judy Dollenmayer provided invaluable editorial assistance. Finally, Kandy Olbrick and Joan Baquis patiently typed and retyped drafts of this manuscript. Financial support for the research was provided through a grant from the Ford Foundation.

The conclusions stated in this report will probably be considered controversial and challenged by some. If so, then our purpose will have been served -- to stimulate broad public discussion of the effectiveness of The Public School Education Act of 1975 in meeting the educational needs of the children of New Jersey.

Margaret E. Goertz

WHAT WE FOUND

In 1970, Kenneth Robinson and his parents sued the State of New Jersey, charging that the way in which the public schools were funded denied a "thorough" education to students who lived in poor school districts. Although New Jersey is an affluent state that spends a great deal of money on educating its children, they argued the distribution of that money is uneven. In 1971-72, Jersey City was spending $897 per pupil on education while its neighbors in Secaucus were spending $1184. Yet its citizens were being taxed at a rate of $2.82 per $100 of equalized valuation while Secaucus taxpayers paid a rate of only $1.10. Similar contrasts appeared in every county in the State: Trenton-Princeton; Newark-Millburn; Hampton-Tewksbury; South Bound Brook-Bedminster, and so on.

The ensuing legal and legislative battles brought about a landmark court decision, Robinson v. Cahill; a modified state school finance formula in The Public School Education Act of 1975; and a commitment by the State to increase its share of educational expenditures by $400 million, beginning in the 1976-77 school year. But did these decisions change the inequitable patterns linking wealth, school expenditures and tax rates documented in the legal briefs? Has increased state funding of education given students in the schools of Jersey City and other poor districts of the State, rural and suburban as well as urban, the educational resources necessary to insure a "thorough and efficient" education?

This report has two purposes: (1) to evaluate whether The Public School Education Act of 1975, in its second year of operation, changed the way in which education revenues are raised and distributed in New Jersey; and (2) to examine whether this new distribution addresses the Court's concerns.

FINDINGS: WHAT THE NEW LAW DOES

We asked three major questions in this research; what we found is grouped under these concerns:

Who received the $400 million of new state aid?

- 68% of the $400 million went to districts of moderate wealth -- those with $30,000 to $70,000 valuation per pupil. 12% flowed to poor districts with less than $30,000 valuation per pupil. The outcome? Although poor districts, which include four of New Jersey's six major cities, received $300 per pupil more in state aid, their share of the state aid pot decreased. In 1975-76 they had received 33% of total state aid. They received 24% of the total in 1977-78 -- a loss to the poor districts of nine percent under the new law.

- The basic distribution pattern for aid was unchanged. High-wealth districts, through minimum aid, transportation aid and special education aid -- all of which are not "equalized" to correct for disparities in property wealth -- received more than $300 per pupil in aid. Differences in aid payments to low and high-wealth districts were not substantially larger in 1977-78 than they had been under the old law.

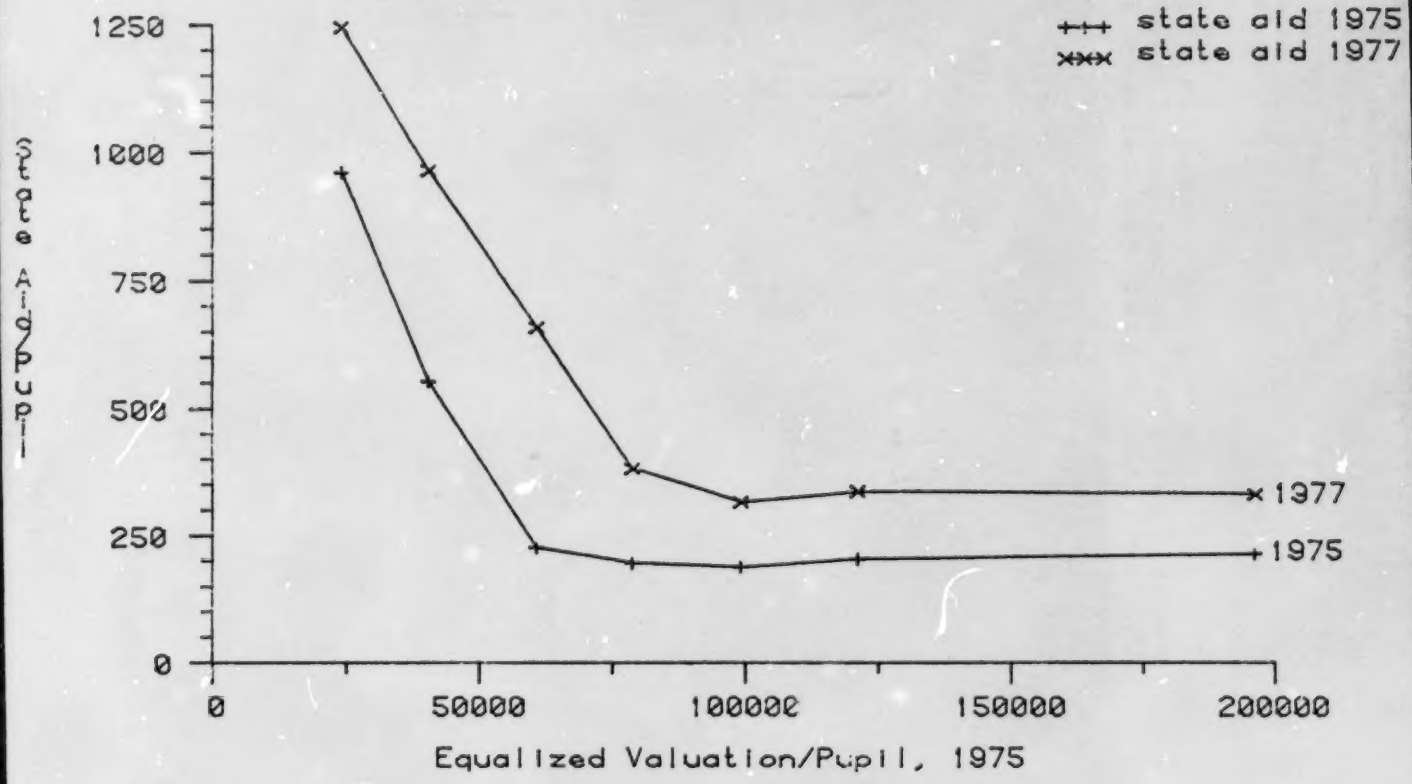
  As Figure 1 suggests, state funds are distributed today in the same way they were under the old law.

Were the new funds used to increase school expenditures or to provide property tax relief?

- Districts with low wealth (less than $30,000 valuation per pupil) and with high wealth (more than $110,000 per pupil) increased their per pupil expenditures at a rate slightly below the State average for the two-year period (22%). However, the poorer districts lowered their tax rates to a significantly greater degree (26%) than the statewide average of 16%.

Figure 1

DISTRIBUTION OF TOTAL STATE AID IN NEW JERSEY, 1975, 1977



- The "budget caps" constrained the ability of poor districts to increase their expenditures at a faster rate, and forced them to substitute state aid for locally-raised education revenues. Even under the "caps," though, high-wealth districts increased their spending $400 per pupil between 1975 and 1977. Yet expenditures by poor districts grew by only $300 per pupil in the same period.

Did the new law succeed in making New Jersey's school finance system measurably fairer?

- The new plan had no impact on disparities among districts in per pupil expenditure. In fact, the dollar gap between districts spending at the low 5th percentile and districts spending at the high 95th percentile widened in the period. The expenditure level of the lowest spending districts increased from 73% to 76% of the State average, while the expenditure level of districts with a history of high expenditures dropped only from 136% to 135% of the statewide average.

- Concurrently the gap in tax rates began to narrow. High tax rate districts dropped their rates from 150% to 139% of the statewide average, while low taxing districts remained at about 40% of the statewide average.

- Although the new system significantly increased the flow of state dollars to compensatory and bilingual education in districts with severe educational need, these districts still spent considerably less per weighted pupil[1] than did wealthier districts with lower educational need in 1977-78.

As Figure 2 suggests, the broad outcome of the new law in operation has been almost negligible. District wealth is still the major factor in determining the level of educational expenditures in New Jersey.

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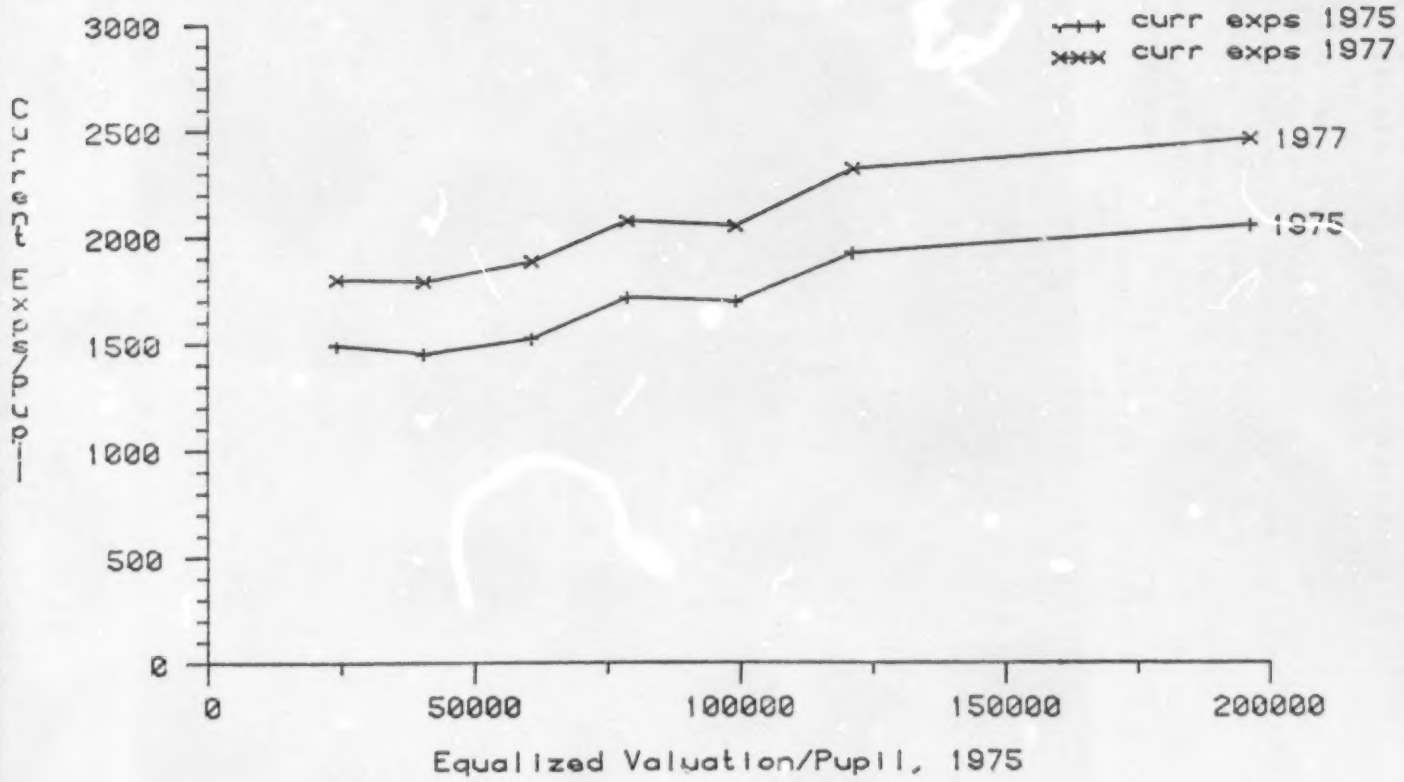
[1]Weighted Pupils represent the sum of the number of students enrolled in a district and the additional cost factors applied to students with special educational needs.

Figure 2

DISTRIBUTION OF CURRENT EXPENDITURES PER PUPIL
IN NEW JERSEY, 1975, 1977



ISSUES FOR THE FUTURE: WHAT POLICYMAKERS SHOULD CONSIDER

The new school finance law in New Jersey is no more equalizing than the old one, despite a 50% increase in state aid dollars. Why?

- The distribution pattern remains unchanged. High-wealth districts continue to receive more than $300 per pupil in types of aid which are not "wealth-equalized." The new law revised aid payments to high- and low-wealth districts, but these revisions were not large enough to offset the substantial disparities in wealth across New Jersey, nor to correct the mismatch between the location of resources and the location of severest needs.

- Struggling under heavy tax burdens and state mandated "budget caps," the low-wealth districts applied part of their increased state aid to tax relief. If all of the new state aid had been devoted to raising educational spending, expenditure disparities among districts could have been narrowed.

- Rapid increases in property valuations on the upper end of the property wealth scale widened disparities among districts over the two-year period we studied. Therefore, an ever-increasing amount of state aid will be required to compensate for wealth-based differences in spending.

- Further study must examine whether certain of these results are inevitable under a Guaranteed Tax Base formula, which the new law represents.

Policymakers and the public should also be concerned that the "caps" placed on school expenditures failed to hold down expenditures of high-spending school districts. What has been the impact of "caps" on districts poor in property?

Another issue raised by the brief history of New Jersey's new school finance law is that of implementing compensatory education funding. Devised under special categories and set up to reflect both poverty and student achievement in their distribution, these funds produced $30 per pupil for New Jersey's wealthy districts in the two-year period. Is this method the most effective way of distributing compensatory education aid?

In short, while The Public School Education Act of 1975 was designed to create a more equitable system of school finance in New Jersey, the realities of this reform were substantially different. The new law, with the resulting disparities in expenditures and tax rates, does not appear to adequately address the Court's concern with guaranteeing every child in the State a "thorough and efficient" education.

The remainder of this report documents our findings and discusses in greater detail the issues that need to be faced in making New Jersey's school finance system more equitable. Since school finance has a language of its own, we have added a Glossary to the end of the report which includes basic school finance concepts, as well as New Jersey-specific terminology.

CHAPTER I

THE BACKGROUND OF REFORM

On April 3, 1973, the New Jersey Supreme Court in Robinson v. Cahill ordered the New Jersey legislature to replace the existing system of financing public elementary and secondary education, a system the Court characterized as a "patchy product reflecting provincial contests." The new school finance plan would have to assure that the education of every child in New Jersey would equip him for "his role as a citizen and as a competitor in the labor market."[1] On September 29, 1975, Governor Byrne signed into law The Public School Education Act of 1975, legislation which could be implemented only after an income tax was passed on July 9, 1976.

The new school finance formula was designed to meet the Court's objections that heavy reliance on local property taxes to pay for education was not providing students with the constitutionally mandated "thorough and efficient" education. The implementation of the new school finance law required the State to increase its aid to local districts by $449 million in 1977-78, to a total of $1.24 billion.[2] The State's share of total expenditures increased from 23.6% in 1975-76 to 34.6% in 1977-78. Support from local property taxes dropped accordingly from 70.8% to 58.1% in the same period of time.[3]

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[1] 303 A.2d 273, 297 (1973).

[2] When the State's contribution to the Teacher Pension and Annuity Fund are excluded, these figures are $400 and $997 million, respectively.

[3] These percentages do not include the State's pension payments.

Yet, the Court called for more than merely an increase in State support. It required that the State "compel the local school districts to raise the money necessary to provide...[the constitutionally mandated] opportunity, or to compensate through a state aid program for local failures to reach that level"[4] (emphasis added). Since the Court earlier held that property-poor districts were financially unable to provide a "thorough and efficient" education[5] the State seemed obliged to provide more aid, particularly to those property-poor districts.

- What were the major changes in New Jersey's school finance formula?
- Who received these additional funds provided by The Public School Education Act of 1975?
- Were these funds used to increase expenditures or to offer tax relief?

Major Changes in New Jersey's School Finance Formula

The Public School Education Act of 1975 made six basic changes in New Jersey's school finance program.

1. The legislature kept the Guaranteed Tax Base* that had been a major component of the previous school finance law -- the Bateman Act. The guaranteed tax base level was increased substantially, however, to 135% of the State average property valuation per unweighted pupil. In 1977-78, the guarantee was $97,000, a level twice as high as that used last in 1975-76 under the old formula.

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[4] 303 A. 2d at 297.

[5] 303 A. 2d at 276-277.

*See the Glossary for an explanation of Guaranteed Tax Base formulas and other unfamiliar terms.

The guaranteed tax base will increase yearly as the State's property valuations rise; under the old law the tax base guarantee could be changed only by an act of the legislature.

2. The 1975 Act discarded pupil weightings for grade levels and for students from families receiving Aid to Families with Dependent Children (AFDC). The higher guaranteed valuation and categorical aid for compensatory education was considered sufficient to replace weightings.

3. While the Bateman formula equalized an unlimited district budget, the 1975 Act stops equalizing a district's budget when it reaches the State support limit -- the 65th percentile of net operating budgets in the State for its district plan.

4. The new legislation changed the basis of aid for special education purposes from classroom support to per pupil support. Instead of subsidizing special education classes, the new plan weights by an additional cost factor the pupils in each of twelve special education categories, as well as those in bilingual, compensatory and home instruction programs. The district then receives a categorical support payment equal to the product derived from multiplying these additional weightings and the State's average current expenditure level.

5. State support to districts for debt service and capital outlay was changed from a foundation formula to a guaranteed tax base formula, using the same guaranteed valuation levels applied in the general equalization aid formula.

6. Every district was subjected to expenditure "caps." A district's expenditure level in a given year is limited to a percentage growth over the prior year's budget, a growth rate affected by the State's rising property valuations and the district's relative expenditure level. Districts spending less than the State average net current expense budget are allowed to increase their spending at a rate greater than those districts spending more than the State average.

In addition to these six major changes, two other school aid programs were modified: minimum support aid and transportation aid. Under the Bateman Act, all districts received a fixed amount of minimum support aid, an amount established by the legislature. The new law provided minimum aid only to districts not eligible for general equalization aid and limits this support according to district plan and district size. Finally, the 1975 Act increased state aid for transportation from 75% to 100% of approved district transportation costs.

Who Received the New State Aid?

When we subtract the additional state funds committed to the teacher retirement system, we find that New Jersey allocated $400 million more in state school aid in 1977-78 than it had done two years earlier. Did property-poor districts receive this money? Did different districts benefit from increases in the different categories of state aid?

Table 1 shows the distribution of the "new" funds when districts are grouped by property wealth.[6] $270 million, or 68% of this "new" money was allocated to school districts of moderate wealth -- $30,000 to $70,000 equalized valuation per pupil. The poorest districts with less than $30,000 valuation per pupil received $48 million, or 12% of the increased aid. This latter category includes four of the six major cities in the State. Although the poorest districts are receiving $300 per pupil more in state aid their share of total state aid dropped from 33% to 24% of the total in that two year period, 1975-76 to 1977-78.

The $400 million in increased aid was distributed across five categories of aid: equalization, special education, school building, transportation and "other."

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[6] Appendix A shows the number of pupils and districts falling into each wealth interval. The figures presented are the weighted averages for each category.

Table 1

Distribution of the "New" State Aid, by District Wealth, 1975-1977[a]

Equalized Property Valuation per Pupil, 1975	Dollar Amount of Change, 1975-1977[b]	Percentage Change, 1975-1977	Total State Aid per Pupil, 1975	Total State Aid per Pupil, 1977
Less than $30,000	$ 48,308,000	27.2%	$ 961	$1247
$30,000-$49,999	113,835,000	71.3	555	966
$50,000-$69,999	156,421,700	197.7	227	660
$70,000-$89,999	55,584,100	83.4	196	383
$90,000-$109,999	13,083,200	58.1	189	317
$110,000-$129,999	7,786,200	54.1	204	338
$130,000 and over	4,681,800	45.6	216	333
State Average or Total	399,703,000	56.6	376	679

[a]Does not include county vocational schools.

[b]Does not include State contributions to the Teacher Pension and Annuity Fund.

Source: New Jersey State Department of Education data compiled and analyzed by the Education Policy Research Institute, Educational Testing Service, Princeton, New Jersey.

When we look at the distribution of each type of aid by district property wealth (Table 2) we find that the poorest districts (less than $30,000 per pupil in valuation) with 13% of the pupils were given only 7.6% of the increased equalization aid, and 29% of the increased special education aid. Districts of moderate wealth, however, with 47% of the pupils received 77.4% of the new equalization monies, and 47% of the special education increase. Wealthy districts also gained substantially from the new formula, particularly in special education and transportation aid.

Therefore, although the poorer districts received a substantial increase in special education aid, moderate-wealth districts received most of the new equalization aid. The overall impact, as shown in Figure 1 on p. 3, was to distribute the state's money in the same pattern as under the old law.

How Were the New Funds Used?

School districts in New Jersey could choose to use increased school aid to increase educational expenditures and/or cut property tax rates for schools. Due to a combination of local choice and the constraints of "budget caps", most districts applied only part of their "new" state aid to increasing expenditures; the remainder was used to decrease their reliance on local property taxes to pay for public elementary and secondary education.

When we look at districts classified by wealth (in Table 3) we see that low-wealth districts increased their current expenditures slightly less than the State average increase, while making substantially larger reductions in their property tax rates. Districts with less than $30,000 valuation per pupil, on the average, increased current expenditures 20.8% and decreased tax rates 26.1% from 1975 to 1977; districts with greater than $110,000 valuation per pupil increased current expenditures an average of 20% while dropping their equalized tax rate an average of 7.1%.

Table 2

Distribution of the "New" State Aid, by Category of Aid and by District Wealth, 1975-77[a]

Equalized Property Valuation per Pupil, 1975	Dollar Amount of Change in State Aid, 1975-77			
	Total State Aid[b]	Equalization Aid	Special Education Aid	Transportation Aid
Less than $30,000	$ 48,308,000	$ 18,536,000	$ 22,689,200	$ 5,176,240
$30,000-$49,999	113,835,000	77,188,000	19,977,200	9,559,200
$50,000-$69,999	156,421,700	111,964,800	16,919,800	14,513,800
$70,000-$89,999	55,584,100	28,128,500	11,623,500	10,738,800
$90,000-$109,999	13,083,200	4,677,500	4,474,100	3,838,500
$110,000-$129,999	7,786,200	2,378,000	2,064,700	2,332,230
$130,000 and over	4,681,800	1,465,150	1,358,800	1,819,870
State Total	399,703,000	244,338,000	80,104,600	47,978,600

[a]Does not include county vocational schools.

[b]Does not include State contributions to the Teacher Pension and Annuity Fund.

Source: New Jersey State Department of Education data compiled and analyzed by the Education Policy Research Institute, Educational Testing Service, Princeton, New Jersey.

Table 3

Current Expenditures per Pupil and Tax Rates for School Districts Grouped by Property Wealth, 1975-76 and 1977-78[a]

Equalized Property Valuation per Pupil, 1975	Current Expenditures per Pupil			Equalized School Tax Rates for Current Expenditures		
	1975	1977	% Change	1975	1977	% Change
Less than $30,000	$ 1493	$1803	20.8%	$2.11	$1.56	-26.1%
$30,000-$49,999	1454	1795	23.5	2.27	1.60	-29.5
$50,000-$69,999	1530	1893	23.7	1.98	1.56	-21.2
$70,000-$89,999	1726	2084	20.7	1.85	1.69	-8.6
$90,000-$109,999	1707	2059	20.6	1.47	1.40	-4.8
$110,000-$129,999	1938	2333	20.4	1.32	1.22	-7.6
$130,000 and over	2063	2473	19.9	0.85	0.79	-7.1
State Average	1609	1960	21.8	1.75	1.47	-16.0

[a]Does not include county vocational schools.

Source: New Jersey State Department of Education data compiled and analyzed by the Education Policy Research Institute, Educational Testing Service, Princeton, New Jersey.

In sum, although the State substantially increased its contribution to funding education, the beneficiaries were not the students of poor districts. Rather than leading to substantial increases in the education budgets of low-wealth districts, the new school finance program provided the greatest benefit to taxpayers of low and moderate-wealth communities.

CHAPTER II

THE REALITIES OF REFORM

In Chapter I we saw which types of districts received the $400 million of new state aid and whether the districts were using these funds to spend more on education or to gain tax relief. One central question remains: How far did this new legislation go toward making New Jersey's school finance system more equitable?

There is no single definition of an equitable school finance system, and there is no single statistic which measures the adequacy of a school finance plan. Since the New Jersey Supreme Court did not specify explicit remedies in its decision, we used the following four criteria of equity (with their associated statistical measures) to assess the fiscal impact of The Public School Education Act of 1975:

- Narrowing the gap among districts in expenditures per pupil;
- Relating the level of educational resources to the level of educational need in a district;
- Guaranteeing that equal resources are produced by equal tax rates ("fiscal neutrality"); and,
- Closing the gap in school tax rates.

These criteria reflect the thinking embodied in the Court decision and debate in the State Legislature before passage of The Public School Education Act of 1975. Both groups underscored the need for equity to students. The Court was emphatic that the State constitution intended to insure equal educational opportunity for all children. And since, as the Court explained, "dollar input is plainly

relevant and because we have been shown no other viable criterion for measuring compliance with the constitutional mandate,"[1] it is necessary to examine the relative per pupil expenditure levels among districts in the State which result from the new legislation. One measure of equity is thus the extent to which the state-local school finance system tends to reduce the gap between high and low-spending districts to zero, or brings low-spending districts up to some state standard of a "thorough and efficient" education.

A cautionary note must accompany this bold statement of the relevant measure. The Court stated that "although we have dealt with the constitutional problem in terms of dollar input per pupil, we should not be understood to mean that the State may not recognize...a need for additional dollar input to equip classes of disadvantaged children for...educational opportunity."[2] The measures discussed above do not take into consideration variations in district expenditures caused by different levels of educational need. A district with a larger percentage of students who need special services due to physical or mental handicaps, inability to speak English, poverty background, etc. may need to spend more money per pupil than a district with fewer such students. A different objective is sought when districts with similar levels of educational need spend similar amounts of money.

Equity to taxpayers was another concern of the New Jersey Superior Court and the State Legislature. In its 1972 decision, the Superior Court established as a goal the need to equalize "the tax burden in support of [educational] programs."[3] Although the State Supreme Court rejected this goal, the desire for a school finance system which

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[1] 303 A. 2d at 295.

[2] 303 A. 2d at 297-298.

[3] 287 A. 2d 187 (1972).

is "fiscally neutral" -- where local district wealth does not determine how much money is available for education -- was politically strong. Both the Bateman Act and The Public School Education Act of 1975 embody this criterion in their formula structure. That is, two districts which levy the same property tax rate should receive identical per pupil revenues through a combination of state aid and local taxes, regardless of their property wealth. Did the implementation of the law achieve this goal? Has the combination of increased state funding and "budget caps" decreased the wide variation in school tax rates which the Superior Court found so unfair?

The remaining sections of this chapter measure to what extent the new school finance law meets these four equity criteria. Our analysis is designed to show whether systematic inequities in the raising and distributing of education revenues remain. Do a large proportion of school children live in districts with expenditures well above or below the State average? Does a strong relationship still exist between the wealth, expenditures and tax rates of districts throughout the State?

Narrowing the Gap in Expenditures

To what extent was the range in current expenditures per pupil among New Jersey school districts narrowed by the infusion of state aid under The Public School Education Act of 1975?

There are several ways of measuring this. First, one can look at the range of expenditures from the highest to the lowest spending districts in the State. Since a few districts in New Jersey operate for special purposes, such as to provide only special education, a more realistic measure is to examine the gap between the expenditures at the 95th and 5th percentiles. The closer this difference is to zero, the more equitable the system.

In 1975-76, current expenditures per pupil between the highest and lowest spending districts in New Jersey ranged between $4,000 in Teterboro, and $789 in Lindenwald Boro. The more typical ninety percent of districts had an expenditure difference of $1,014. Children who lived in a district at the 95th percentile had $2,185 spent on their schooling, an amount 1.86 times as large as that spent in the district at the 5th percentile, $1,171.

Although the Legislature increased state funding of education by more than 50%, the gap in current expenditures increased slightly to $1148. That is, as shown in Table 4, in 1977-78 the district spending at the 95th percentile expended $2646 per child, or 1.77 times as much as the $1498 per child spent in the district at the 5th percentile.

Table 4

Current Expenditures per Pupil
5th and 95th Percentiles Compared to State Average

	1975	1977
5th Percentile	$1171	$1498
95th Percentile	$2185	$2646
State Average	$1609	$1960
Ratio of 5th Percentile to Average	0.73:1	0.76:1
Ratio of 95th Percentile to Average	1.36:1	1.35:1

Source: New Jersey State Department of Education data compiled and analyzed by the Education Policy Research Institute, Educational Testing Service, Princeton, New Jersey.

A second way of measuring the disparities in expenditures is to look at the variation of expenditures around the State average expenditure.[4] In 1975-76, the district at the 5th percentile spent 73% of the State average, while the district at the 95th percentile spent at 136% of the average. By 1977-78 the district at the 5th percentile had increased spending to 76% of the State average, while the district at the 95th percentile had dropped its spending to 135% of the State average.

Thus, in spite of an increase of nearly 50% in state aid, substantial disparities in expenditures remain.

Relating Educational Resources to Educational Need

Since 1970, school funding plans in New Jersey have recognized the need to provide extra educational services to students from low-income families, students with physical and mental handicaps, students in need of bilingual education, and so on. As shown in Table 5, the distribution of students with these special needs is not random throughout the State. In four categories of educational need -- poverty, compensatory education, bilingual education, and special education -- the low-wealth districts have a greater concentration of pupils than the high-wealth districts.[5]

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[4]Another measure of "leveling-up" expenditures--that is, narrowing the gap in expenditures between the low expenditure districts and the State average or median--is the McLoone Index. The McLoone Index is a measure of variation in a district's school revenues per pupil below the State median, and a comparison of two McLoone indices for two years can show how much closer low-spending districts have come to reaching the State median. This index ranges between 0 and 1; the closer this index is to 1.0, the less dispersed are the values below the median. The McLoone indices for current expenditures per pupil in New Jersey for 1975-76 and 1977-78 were 0.88 and 0.897 respectively.

[5]These measures, however, may understate the number of children in need of special education services. For example, in 1975-76, the number of children deemed in need of compensatory education programs was measured by the number of Title I (ESEA) eligibles in each district. The counts of students needing special education or bilingual programs are of children who received these kinds of services in 1975-76. The children in need of these services may be potentially a larger group.

Table 5

Distribution of Pupils by Educational Need and District Wealth, 1975-76

Equalized Property Valuation per Pupil	Percent of Pupils From AFDC Families	Percent of Pupils in Need of Compensatory Education[a]	Percent of Pupils Enrolled in Bilingual Education Programs	Percent of Pupils Enrolled in Special Education Programs
Less than $30,000	39.15%	45.12%	4.52%	3.25%
$30,000-$49,999	16.69	19.16	2.53	2.40
$50,000-$69,999	6.47	7.87	0.73	1.82
$70,000-$89,999	4.52	6.85	0.25	1.70
$90,000-$109,999	3.08	5.76	0.25	1.61
$110,000-$129,999	4.73	6.66	0.17	1.81
$130,000 and over	5.44	8.15	0.17	1.92
State Average	11.87	14.47	1.38	2.08

[a]Number of Title I Eligibles in a district.

Source: New Jersey State Department of Education data compiled and analyzed by the Education Policy Research Institute, Educational Testing Service, Princeton, New Jersey.

In Table 5 the students with special education needs were counted on an equal basis, regardless of the type of need, or the amount of resources needed to service that need. However, the programs serving some types of educational needs are more costly than others. Therefore, another way of looking at the extent of educational needs in districts is to weight the students with special education needs by some measure of additional resources needed beyond those allocated to the average pupil.[6]

Table 6 presents a Weighted Pupil Index for the districts grouped by wealth. This index shows the relationship of the number of weighted pupils to the number of students enrolled in the district. The larger this number, the greater the level of educational need in the district. The range among districts in the State was 1.00 to 1.19, with the poorest districts in the State having the highest levels of educational need.

In a system of financing education which relies heavily on local property tax revenues, the distribution of property wealth has a major impact on the availability of education resources. Since high educational need districts have tended to be property-poor, they traditionally have been unable to raise adequate revenues for their students (Table 7).

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[6]Weighted Enrollments were calculated as follows. The number of students in each educational need category were multiplied by that category's additional cost factor as embodied in The Public School Education Act of 1975, Sec. 18A:7A-20. The sum of these products is that district's total "educational need units." The Weighted Enrollment is equal to Total Educational Need Units + Total Enrollment in a district. The Weighted Pupil Index is the ratio of Weighted Enrollment to Unweighted Enrollment. Thus, a district with 1000 students and 100 Educational Need Units would have a Weighted Pupil Index of

$$\frac{100 + 1000}{1000} = 1.10$$

Table 6

Relationship between Wealth and Educational Need

Equalized Valuation per Pupil	Weighted Pupil Index[a]
Less than $30,000	1.10
$30,000-$49,999	1.06
$50,000-$69,999	1.04
$70,000-$89,999	1.04
$90,000-$109,999	1.04
$110,000-$129,999	1.05
$130,000 and over	1.04
State Average	1.05

[a]Total Weighted Enrollment/Pupils Enrolled.

Source: New Jersey State Department of Education data compiled and analyzed by the Education Policy Research Institute, Educational Testing Service, Princeton, New Jersey.

Table 7

Relationship Between Educational Need and Expenditures

Weighted Pupil Index[a,b]	Current Expenditures per Weighted Pupil, 1975-76	Current Expenditures per Weighted Pupil, 1977-78[c]
1.11	$1439	$1648
1.08	1470	1729
1.05	1534	1810
1.04	1587	1846
1.03	1507	1790
1.03	1563	1829
1.02	1609	1853
State Average:	1528	1784

[a] Total Weighted Enrollment/Pupils Enrolled
[b] Each interval contains an equal number of pupils
[c] 1977-78 expenditures divided by 1976 Total Weighted Enrollment

Source: New Jersey State Department of Education data compiled and analyzed by the Education Policy Research Institute, Educational Testing Service, Princeton, New Jersey.

The Public School Education Act of 1975 sought to change this situation by giving poor districts more equalization aid and by targeting special education aid to students in need of special education, compensatory education and bilingual education programs. Table 2 showed that poor districts, with 13% of the State's students, received 28% of the increase in these categorical monies.

As a result of these provisions in the new law, districts with high educational need spent on the average $210 more per weighted pupil in 1977-78 than in 1975-76. Their position relative to low eductional need districts has not changed at all however. Low-need districts increased their expenditures at an even greater rate. As a result, the gap in expenditures per weighted pupil between low-need and high-need districts grew from $170 in 1975-76 to $204 in 1977-78.

Fiscal Neutrality

Two measures are useful in evaluating the "fiscal neutrality" of the New Jersey school finance system.[7] First, one can look at the relationship between property wealth, current expenditures per pupil and school tax rates. Using this measure, a system is not "fiscally neutral" when towns with high valuations per pupil and low tax rates spend more than towns with lower property wealth and higher tax rates.

In 1975-76, the level of a district's current expenditures was strongly related to the level of its property wealth. Table 8 shows that wealthy districts not only spent more on education, but did so with a lower school tax rate. While the districts with the least property wealth taxed at an average rate of 2.11 per $100 of equalized valuation and spent $1493 per pupil, the wealthiest districts spent an average of $2064 (1.4 times as much) with an average tax rate of 0.85 per $100 of equalized valuation (four-tenths as high).

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[7] A third measure, the Gini coefficient, indicates to what degree the distribution of wealth follows the same pattern as the distribution of current expenditures. Are the poorest 50% of the pupils receiving 50% of the resources? A valid Gini coefficient can range from 0.0 to 1.0. A coefficient of 0.0 indicates total equity; a value of 1.0 indicates total inequity. The Gini coefficients for current expenditures per pupil in 1975-76 and 1977-78 were 0.049 and 0.048 respectively.

Table 8

Relationship between Property Wealth, Current Expenditures and Tax Rates, 1975-76, 1977-78

Equalized Valuation per Pupil	Current Expenditures per Pupil, 75-76	Current School Tax Rate 75-76	Current Expenditures per Pupil, 77-78	Current School Tax Rate 77-78
Less than $30,000	$1493	$ 2.11	$ 1803	$ 1.56
$30,000-$49,999	1454	2.25	1795	1.60
$50,000-$69,999	1530	1.98	1893	1.56
$70,000-$89,999	1726	1.85	2084	1.69
$90,000-$109,999	1707	1.47	2059	1.40
$110,000-$129,999	1938	1.32	2333	1.22
$130,000 and over	2064	0.85	2473	0.79
State Average	1609	1.75	1960	1.47

Source: New Jersey State Department of Education data compiled and analyzed by the Education Policy Research Institute, Educational Testing Service, Princeton, New Jersey.

By 1977-78, the addition of $400 million of state funds into the school finance system had done little to break this wealth/expenditure/tax rate relationship. While the school tax rates for the districts of less than $90,000 equalized valuation per pupil dropped considerably, substantial variations in expenditures continued to exist. Districts having less than $30,000 valuation taxed at a slightly greater rate than those with $90,000 to $110,000 valuation but still spent $250 per pupil less, an expenditure gap larger than that which existed two years earlier. Table 8 and Figure 2 illustrate that education resources available to the children of New Jersey are as "largely controlled by the haphazard distribution of real property wealth" as they were in 1975-76.

A second measure of "fiscal neutrality" looks at expenditures of districts with similar tax rates. In Tables 9 and 10 matrices have been created which divide districts into nine categories, ranging from districts with low property wealth and low school tax rates to districts with high property wealth and high school tax rates. The average expenditures per pupil are displayed in each cell of the charts. If the new system is to meet the criterion of "fiscal neutrality," all districts with tax rates in the same range must show similar expenditures per pupil regardless of their per pupil wealth. Reading Tables 9 and 10 horizontally, from left to right, the 122 districts in the low-wealth category roughly correspond to those included in the first two intervals of property valuation in Table 8. In similar fashion, the middle and high-wealth groups correspond to the middle two and last three intervals of Table 8 respectively.

Comparing districts with the same tax rate grouping, we find that given similar tax rates, high-wealth districts spent on average 50% more than low-wealth districts in 1975-76 (Table 9). For example, low-wealth districts which taxed themselves at a rate between 1.40 and 2.10 spent on the average $1344 in 1975-76, or $686 less than high-wealth

Table 9

Distribution of Average Current Expenditures by Property Wealth and Tax Rate Grouping, 1975-76

Property Wealth per Pupil	Equalized School Tax Rate: Low Less than 1.40	Medium 1.40-2.10	High Greater than 2.10
Low			
Less than $50,000 (122)*	$1299 (5)	$1344 (68)	$1555 (49)
Medium			
$50,000-$89,999 (305)	$1322 (34)	$1568 (192)	$1797 (79)
High			
$90,000 and over (151)	$1712 (106)	$2030 (44)	$2317 (1)

*The numbers in parentheses represent the number of districts within each group.

Table 10

Distribution of Average Current Expenditures by Property Wealth and Tax Rate Grouping, 1977-78

Property Wealth per Pupil	Equalized School Tax Rate: Low Less than 1.40	Medium 1.40-2.10	High Greater than 2.10
Low			
Less than $50,000 (123)	$1680 (32)	$1827 (85)	$1925 (6)
Medium			
$50,000-$89,999 (305)	$1704 (68)	$1994 (220)	$2514 (17)
High			
$90,000 and over (150)	$2151 (114)	$2344 (35)	$2392 (1)

Source: New Jersey State Department of Education data compiled and analyzed by the Education Policy Research Institute, Educational Testing Service, Princeton, New Jersey.

districts with comparable tax rates. Similarly the 49 low-wealth, high-taxing districts spent $1555 per pupil, while the 106 high-wealth, low-taxing districts spent almost $160 per pupil more, or $1712 per pupil, in 1975-76.

Table 10 shows the expenditure differences which existed in 1977-78. Property-wealthy districts still spent on the average 30% more than property-poor districts levying similar tax rates. And the 114 high-wealth, low-taxing districts now spent in excess of $200 per pupil more than the six low-wealth, high-taxing districts.

Although the guaranteed tax base formula is designed to guarantee equal revenues to districts with similar tax rates, other elements in The Public School Education Act of 1975 have operated to limit the "fiscal neutrality" of the overall system.

Closing the Gap in School Tax Rates

A final criterion of equity is the extent to which taxpayers "are taxed at different rates throughout the State for the same public purpose."[8] Again two different measures can be applied: the range in school tax rates throughout the State, and the distribution of tax rates across property wealth intervals.

As we have seen throughout this report, tax rates for the support of public education vary considerably throughout the State. As shown in Table 11, high tax rate districts in 1975 levied tax rates 150% of the State average while the low rate districts were at 40% of the average. By 1977, the use of state aid to provide relief to taxpayers had resulted in the overall level of tax rates decreasing, and a substantial narrowing in the range of rates. We find, therefore, that by 1977, high tax rate districts had rates at 139% of the State average, while low rate districts remained at slightly more than 40% of the average.

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[8] 287 A.2d 137(1972).

Table 11

Equalized Current School Tax Rate
5th and 95th Percentiles Compared to State Average

	1975	1977
5th Percentile	2.613	2.04
95th Percentile	0.703	0.61
State Average	1.75	1.47
Ratio of 5th Percentile to Average	1.49:1	1.39:1
Ratio of 95th Percentile to Average	0.402:1	0.41:1

Source: New Jersey State Department of Education data compiled and analyzed by the Education Policy Research Institute, Educational Testing Service, Princeton, New Jersey.

Finally, when we look at the distribution of districts in the low, medium and high tax rate groupings in Tables 9 and 10, we find that in the two-year period the number of low-wealth districts levying a tax rate of 2.10 per $100 of equalized valuation or higher dropped from 49 or 40% of the total, to 6, or 5%. Similarly, the number of medium-wealth districts with tax rates greater than 2.10 decreased from 79 or 26% of the total, to 17 or 6%.

It appears, then, that the impact of heavy tax burdens in the poor districts and "budget caps" on all the districts led them to substitute state aid for locally-raised education revenues. The result was a significant drop in school tax rates rather than a lessening of expenditure disparities.

CHAPTER III

ISSUES FOR THE FUTURE

Chapter II has shown, that under three of four measures, the new system for raising and distributing education revenues in New Jersey is no more equalizing than the old one. Under the fourth measure, closing the gap in tax rates, taxpayers have gained. Have the students in their districts?

- Why hasn't a 50% increase in state aid dollars resulted in greater equity?
- What aspects of the school finance system require more study?
- What issues will be facing policymakers in New Jersey as they respond to Robinson v. Cahill?

Why the School Finance Formula Doesn't Work

The Public School Education Act of 1975 contains two major deterrants to reform: (1) the distribution of minimum aid and categorical aid; and (2) "budget-caps."

Minimum Aid and Categorical Aid. In 1977-78, high-wealth districts (those whose tax base is above the state guarantee) received on the average more than $300 per pupil in state aid, an increase of $130 over 1975-76. As we see in Table 12 these districts received larger minimum aid payments, more money for special education programs, and increased transportation aid.

Although their share of the total state aid "pie" decreased from 8.6% to 7.8%, these districts are insured continued support. The new minimum aid program guarantees that no district shall receive less than 10% of its state support limit in equalization aid. As the average expenditure of these districts increases, so will the size of the per pupil minimum aid grant. Special education

Table 12

Distribution of Total State Aid, by Selected Category and by District Wealth[a]

Equalized Valuation per Pupil, 1975	Equalization Aid		Special Education Aid		Transportation Aid	
	Per Pupil Aid 1977-78	Dollar Change Per Pupil 1975-77	Per Pupil Aid 1977-78	Dollar Change Per Pupil 1975-77	Per Pupil Aid 1977-78	Dollar Change Per Pupil 1975-77
Less than $30,000	$1001	+$156	$179	+$133	$48	+$31
$30,000-$49,999	758	+ 303	113	+ 74	61	+ 35
$50,000-$69,999	465	+ 312	82	+ 47	69	+ 40
$70,000-$89,999	223	+ 98	81	+ 40	63	+ 35
$90,000-$109,999	171	+ 49	82	+ 43	64	+ 36
$110,000-$129,999	173	+ 46	98	+ 50	67	+ 38
$130,000 and over	169	+ 40	84	+ 33	78	+ 43
State Average	489	+ 196	101	+ 61	53	+ 35

[a]Does not include county vocational schools.

Source: New Jersey State Department of Education data compiled and analyzed by the Education Policy Research Institute, Educational Testing Service, Princeton, New Jersey.

aid is similarly related to the State average expenditure; wealthy districts receive the same amount of aid for each "additional cost factor" as do poor districts. As we saw in Table 6, districts with property wealth per pupil above $130,000 have the same level of educational need as districts with $50,000 per pupil valuation. As a result, both sets of districts receive similar amounts of special education aid (Table 12). Finally, transportation aid provides 100% reimbursement for approved transportation expenditures. Since wealthy districts are usually less densely populated districts, the distribution of this aid is inversely related to district property wealth.

"Budget Caps." "Budget Caps" were written into the 1975 school finance legislation for four reasons:

> (1) preventing large expenditure increases during a short time period, which may be wasteful;
>
> (2) limiting state liability for future school aid;
>
> (3) moving toward equalization of school expenditures per pupil; and
>
> (4) assuring that increases in state aid will have some effect in lowering or stabilizing school taxes."[1]

Our preliminary examination of the fiscal impact of "budget caps" shows that by 1977-78 most property-poor districts (those with less than $30,000 per pupil) had brought their budgets within a few dollars of their "caps," while wealthier districts spent considerably less than their "caps" would have allowed. While a more in-depth study must be conducted to learn which kinds of districts

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[1] New Jersey Legislature Joint Committee on the Public Schools, Budget Cap Administration for 1976-77: Digest (JCPS Monitoring Program 4: First Periodic Report), November 16, 1976, p. 1.

choose to spend up to their budget limits, and why, it is clear that the four goals of the "budget caps" are contradictory -- any legislation designed to force tax relief and limit state liability for future school aid cannot go far in equalizing expenditures.

Issues for Further Study

A number of questions concerning the impact of The Public School Education Act of 1975 require further study.

The element of the new law which appears to have had the greatest impact on expenditure levels and tax rates is the "budget cap." Why have the "caps" placed on school expenditures failed to significantly hold down expenditures of high-spending districts? What has been the impact of "caps" on property-poor districts? Have "caps" forced districts to reduce the proportion of their budgets allocated to instruction in order to pay expenses such as rapidly rising energy bills? How have "caps" affected local control? The collective bargaining process?

A second issue concerns declining enrollments. The guaranteed tax base formula measures a district's wealth as equalized property valuation per pupil. As a district loses pupils, the denominator in the equation becomes smaller, driving up its valuation per pupil. Thus, a district which has above average declining enrollments will look relatively wealthier, and be eligible for less equalization aid. This district, however, has a number of fixed costs -- for physical plant, administration, school buses, etc. -- which cannot be cut each year in direct proportion to the loss in aid. What is the impact of declining enrollments on districts throughout the State? Should the equalization formula cushion rather than penalize districts which are suffering these dislocations?

A third problem lies with the general nature of a guaranteed tax base formula. The objective of this formula

is to eliminate disparities in expenditures which are related to the property wealth of the district. It does so by equalizing the ability of all school districts to raise education revenues from local and state sources at a given tax rate. A guaranteed tax base formula neither requires nor, in general, results in reductions in per pupil expenditures. Our analysis has shown this to be true in New Jersey; studies of comparable formulas in Illinois, Colorado, Michigan and Missouri have yielded similar conclusions.[2]

In addition, recent court decisions in Seattle and Cincinnati have challenged the very nature of guaranteed tax base formulas.[3] In each case, it was successfully argued that the willingness of the school district's voters to tax themselves for education ran counter to the State's overall responsibility to provide a "thorough and efficient" education for children irrespective of their residence or the whims of the electorate. Substantial research links the willingness of voters to support education referendums with their level of income. There is a need to determine in New Jersey what factors affect voter support of school budgets, and the impact of these factors on the operation of the State's equalization aid formula.

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[2] See Allan Hickrod, Ben C. Hubbard, et. al., 1973 Reform of the Illinois Grant-in-Aid System: An Evaluation after Three Years, (Normal, Illinois: Center for the Study of Education Finance, Illinois State University, 1976); Rene Montoya, Impact of School Finance Reform in Colorado, Papers in Education Finance, Paper #8 (Denver, Colo.: Education Commission of the States, forthcoming); and Allan Odden, School Finance and School Finance Reform in Michigan and Missouri: Impact on Suburban School Districts, (Denver, Colo.: Education Commission of the States, September 1977).

[3] Seattle School District No. 1 v. State of Washington and Board of Education of Cincinnati v. Walter. For a precis of these opinions see Lawyers' Committee for Civil Rights Under Law, School Finance Project, Update on Statewide School Finance Cases, (Washington, D. C., February 1978).

Finally, many districts received substantial increases in state aid. How have these new dollars been used? To what extent has the new system of financing education been tied to the effort to develop "thorough and efficient" education programs? What has been the impact of funding changes on the delivery of educational services?

Policy Issues for the Future

In summary, it appears that efforts to meet the Court's mandates in Robinson v. Cahill have not adequately addressed many of the concerns outlined by the justices. Policy-makers and the public must continue to face a number of knotty and interrelated issues.

- Does the State intend to address directly existing disparities in per pupil expenditures?
- Can an equitable school finance system co-exist with minimum aid payments and unequalizing categorical grants?
- Is tax relief for property-poor districts a more important goal than increasing education resources available to their students?
- Has the current system of financing elementary and secondary schools resulted in a more "thorough and efficient" system of education?

APPENDIX A

Classification of Districts by Property Wealth[a]

Equalized Valuation per Pupil, 1975	Number of Districts in Category	Number of Pupils in Category
Less than $30,000	23	184,681
$30,000-$49,999	99	287,704
$50,000-$69,999	171	382,863
$70,000-$89,999	134	340,454
$90,000-$109,999	64	119,188
$110,000-$129,999	29	70,573
$130,000 and over	55	47,584
Total	575	1,433,047

[a]Does not include Stone Harbor Borough, Rockleigh Borough and Teterboro Borough.

Source: New Jersey State Department of Education data compiled and analyzed by the Education Policy Research Institute, Educational Testing Service, Princeton, New Jersey.

GLOSSARY

Budget Caps: Statutory limits placed on expenditure increases in local school budgets (Section 25 of The Public School Education Act of 1975). A district's expenditure level in a given year is limited to a percentage growth over the prior year's budget, a growth rate affected by the State's rising property valuations and the district's relative expenditure level. Districts spending less than the State average net current expense budget are allowed to increase their spending at a rate greater than those districts spending more than the State average.

Categorical Aid: State aid that is designated for specific use. Examples are transportation aid, special education aid, aid for vocational education, and aid for capital construction.

Current Expenditures: Current expenditures include educational expenditures for the daily operation of the school program. It does not include capital construction and debt service expenses.

District Plan: The district plan is determined by the grade levels offered by a district and whether it is part of a regional district.

Equalized Property Valuation: The value of taxable property in a district adjusted by the New Jersey Division of Taxation to reflect 100 percent of market value.

Fiscal Neutrality: When a school finance system is "fiscally neutral," local district wealth is not a determinant of how much money is available for educational expenditures. Two districts levying the same property tax rate would receive identical per pupil education revenues.

Guaranteed Tax Base Formula: The Guaranteed Tax Base Plan is designed to assure that every district in the state can act as though it had a tax base at least as great as some set minimum. State aid is the difference between what would theoretically be raised under the guaranteed tax base and what can actually be raised from the local tax base. The greater the disparity between actual and guaranteed wealth, the larger the state aid allocation. The Guaranteed Tax Base formula is:

$$\text{State Aid} = \left(\begin{array}{c}\text{Revenues generated}\\ \text{by the}\\ \text{Guaranteed Tax Base}\end{array}\right) - \left(\begin{array}{c}\text{Revenues generated}\\ \text{by the}\\ \text{Actual Tax Base}\end{array}\right)$$

Leveling-up: The objective of "leveling up" education expenditures is to bring low-spending districts up to the state average or median expenditure level. One is not concerned with expenditure disparities which exist above this level.

Minimum Support Aid: An amount of aid to which every district is entitled. In New Jersey, every district receives a minimum equalization aid payment equal to 10% of its state support limit.

Net Current Expense Budget: A district's current expense budget minus federal aid, miscellaneous revenue, balance appropriated, and state categorical aid.

Pupils: The number of children who reside in the school district and are enrolled on September 30th in public schools either in their own district or in a district to which the school board pays tuition. This count does not include students sent to county vocational schools.

School Tax Rate: The amount of property tax dollars to be paid for each $100 of equalized valuation in a school district. School Tax Rates are calculated by dividing the revenues raised locally for education expenditures by that district's equalized property valuation.

State Support Limit: The 65th percentile net current expense budget when all districts within a given district plan are ranked from low to high. The state support limit is calculated and applied separately for the five district plans.

Wealth-equalization: The process of compensating for school district's ability to support education in order to achieve student equity and taxpayer equity.

Weighted Pupils: Weighted pupils represent the sum of the number of students residing in a district and the additional cost factors applied to students with special educational needs.